



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. G05-76
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
NORTH COAST LIFE INSURANCE)	AND ORDER ADOPTING REPORT
COMPANY)	OF
)	FINANCIAL EXAMINATION
A Domestic Insurer.		

BACKGROUND

An examination of the financial condition of **NORTH COAST LIFE INSURANCE COMPANY** (the Company) as of December 31, 2004, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a stock insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and comments and recommendations was transmitted to the Company for its comments on September 21, 2005. The Company's response to the report is attached to this order only for the purpose of providing convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners work papers, and submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 23 of the report.

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **NORTH COAST LIFE INSURANCE COMPANY** and to order the Company to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner acknowledges that the Company may have implemented the Instructions and Comments and Recommendations prior to the date of this order. The Instructions and Comments and Recommendations in the report are an appropriate response to the matters found in the examination.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions and Comments and Recommendations contained in the examination report on pages 1-8.

1. The Company is ordered to follow the NAIC's Annual Statement Instructions and the AP&P, as required by WAC 284-07-050(2). Because adherence to the FCEH is included in these requirements, the Company is further ordered to correct all deficiencies and to execute a revised or amended custodial agreement. Instruction 1, Examination Report, page 2.
2. The Company is ordered to comply with RCW 48.05.280 and keep full and adequate accounts and records of its assets, obligations, transactions, and affairs. Instruction 2, Examination Report, page 2.
3. The Company is ordered to comply with RCW 48.05.073 and WAC 284-07-500(2) and file its financial statements in accordance with the RCW and the AP&P by eliminating any unauthorized reserve credits which are not secured by deposits or an LOC, as required by RCW 48.12.160(1)(c)(i) or (ii). Instruction 3, Examination Report, page 3.
4. NCLIC is further ordered to ensure that its officers and directors comply with RCW 48.05.370, which requires that they discharge their duties with the diligence, care and skill which ordinary, prudent men would exercise in similar situations. This includes ensuring that the Company officers and directors fully and critically evaluate proposed significant transactions and agreements before executing them. In the case of the CMRP, this evaluation is overdue and serious consideration should be given to terminating this agreement. Instruction 3, Examination Report, page 3.

5. The Company is ordered to adhere to RCW 48.12.200(1) by limiting purchase money mortgage loans to 90% of the properties' fair value. Instruction 4, Examination Report, page 4.
6. The Company is ordered to comply with RCW 48.05.073 which requires the filing of its financial statements in accordance with the AP&P; and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Instruction 5, Examination Report, page 4.
7. The Company is ordered pursuant to RCW 24.06.130, which requires that a change in the number of Directors be made through an amendment to the By-Laws or Articles of Incorporation, to amend its By-Laws to reduce the number of Directors to nine or to bring the number of directors into conformity with the existing By-Laws. Instruction 6, Examination Report, page 5.
8. The Company is ordered to comply with RCW 48.12.030(2) and record the amount necessary to pay all of its losses and claims whether paid or unpaid. This would include recording the IBNR that closely approximates the actual experience of the Company. Instruction 7, Examination Report, page 5.
9. It is ordered that NCLIC consider following the NAIC Guidelines concerning disruptions of normal business activities and implement a Business Contingency Plan to ensure continuation of all significant business services, including financial functions, customer service and telecommunication systems. Comments and Recommendations 1, Examination Report, page 5.
10. It is ordered that NCLIC consider amending the property insurance policy on the West 1116 Riverside building to name its owner, West 1116 Riverside Partners avoiding problems in the event of a loss. Comments and Recommendations 2, Examination Report, page 6.
11. It is ordered that the Company consider keeping the policy and claim files in a secure area to protect all valuable and private information. Comments and Recommendations 3, Examination Report, page 6.
12. It is ordered that NCLIC consider updating its Employee Handbook to reflect current conditions in order to provide guidance for employees and to avoid possible litigation. Comments and Recommendations 4, Examination Report, page 6.
13. It is ordered that the Company consider obtaining a better understanding of private placements before investing therein and maintaining ongoing contact with originators or managers. Additionally, prospective foreign investments should be appropriately screened in accordance with RCW 48.13.180(2). Comments and Recommendations 5, Examination Report, page 6.

14. It is ordered that the Company consider implementing written procedures documenting all important processes and reconciliations. Comments and Recommendations 6, Examination Report, page 7.
15. It is ordered that the Company consider obtaining directors' and officers' liability coverage to protect the Company's assets. Comments and Recommendations 7, Examination Report, page 7.
16. It is ordered that the Company consider formally canceling the affiliated company service and mortgage loan contracts in order to recognize the current reality concerning inter-company agreements. Comments and Recommendations 8, Examination Report, page 7.
17. It is ordered that the Company consider utilizing an investment firm to manage the investment portfolio, subject to agreed performance objectives and restrictions, leaving the president and the investment committee to review and oversee the investment decisions. Comments and Recommendations 9, Examination Report, page 8.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Tumwater, Washington, this 20th day of October, 2005.

A handwritten signature in black ink, appearing to read "Mike Kreidler", with a stylized, flowing script.

MIKE KREIDLER
Insurance Commissioner



September 30, 2005

RECEIVED
OCT 03 2005

INSURANCE COMMISSIONER
COMPANY SUPERVISION

Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner, Company Supervision Division
Office of the Insurance Commissioner
P.O. Box 40255
Olympia, WA 98504-0255

Re: Draft of the Examination Report of North Coast Life
Insurance Company as of December 31, 2004

Dear Mr. Odiorne:

Thank you for the opportunity to comment on the factual material presented in the draft Examination Report of North Coast Life Insurance Company as of December 31, 2004. This letter constitutes our responses to the Instructions and Recommendations of the draft.

Instructions:

1. Custodial Agreement

A draft of the Custodial Agreement was provided to the Commissioner's Office in early May for your review, and we are currently awaiting your response.

2. Affiliated Transactions

As stated in the draft Report we had already revised procedures as of the date of the Examination.

3. Unauthorized Reinsurance

In accordance with the comment under the topic "Subsequent Events" on page 14 of the draft Report, we no longer carry this Plan as of October 1, 2005. We believe that it has been assumed by Nippon Life Insurance Company of America as of that date. Despite frequent requests to comply, the third party administrator, Thomas Mestmaker of Bakersfield, California, failed to furnish us with several promised documents and opinions from his attorney covering the approval of this plan in the state of California and, as we had made the decision in May to terminate the plan, we were never provided with the required letter of credit.

4. Mortgage Loan Valuation

Any purchase money mortgages (i.e., resold real estate owned) that we have, did comply with RCW. We have always required 10% down on any real estate sold. The majority of our portfolio is not comprised of purchase money mortgages but of mortgages purchased on the secondary market. The Company is not currently purchasing mortgages.

5. NAIC Annual Statement Preparation

All recommended corrections will be made.

6. Change In Number of Board Members

We did not reduce the number of Directors from 12 to 9. We did not elect replacements as vacancies by death and resignation occurred because it is difficult to find suitable Board members from among our stockholders and also without the Directors and Officers Legal Liability Insurance. Nevertheless, we no longer have three vacancies. Robin Johnston, Treasurer of our Company, became a member of the Board of Directors at the Annual Meeting on April 22 this year. We are actively pursuing the possibility of two additional Directors. The instruction for us to amend our By-laws to reduce the number of Directors we believe is inappropriate.

7. IBNR

The Company will make adjustments to its method of calculating IBNR, as requested.

Recommendations:

1. Business Contingency Plan

As stated in the draft of the Examination Report under the heading of "Accounting Records and Information Systems" on page 14, our Information Systems Department has detailed procedures to recover from an incident or disaster and has prepared a written disaster recovery plan. We will expand that to include other departments and formalize a business contingency plan.

2. Property Insurance

We have had no difficulties regarding claims in the past but this will be discussed with our broker when the policy renews at the end of this year.

3. Policy and Claim File Security

Before we moved into West 1116 Riverside and while the building was being remodeled, I talked to John Woodall (the Deputy Commissioner in charge of Company Supervision) and asked if there

were requirements in the statutes or regulations with respect to the storage of policy files, and if so, what fire rating a storage facility might require. I was told there were no such requirements. We, therefore, did not build a storage room for policy files at West 1116 Riverside, and it would now be very difficult to do so.

We will, however, establish better policy file security by blocking off the policy storage area including a lockable door.

Our building is built of concrete and steel, is fire resistant, and equipped with appropriate fire protection devices.

4. Employee Handbook

The updating of this handbook is underway.

5. Private Placements and Foreign Investments

We have always checked potential foreign investments for the rating of the country against the list of nations promulgated by the Securities Valuation Office. Because we only purchase SVO Class 1 or 2 investments we believe we have always complied with the provision related to default in the five years preceding the date of acquisition.

We never have participated in an original private placement and never have purchased any security with restricted resale. Today private placements are not resold through an originator or manager. Rule 144A paper is traded on the secondary market just like any other bond or preferred stock.

6. Documentation of Procedures and Reconciliations

Our Accounting Department has begun working on the documentation of these cycles.

7. Directors' and Officers' Liability Insurance

Our Board of Directors has set a level for premiums and deductibles that would be acceptable for this insurance and our broker is continually working on this. We check the price and availability of D&O insurance frequently but at this time our broker has not been able to meet the Board's criteria.

8. Inter-Company Agreements

The agreements mentioned in the draft Report of Examination are still active and should not be cancelled. However, due to changes in levels of service, we will review them for amendment.

Mr. James T. Odiorne

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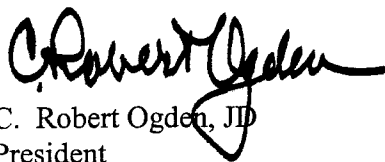
9. Investment Transactions

We have entertained proposals from investment management firms with respect to our portfolio several times in the past. Even if we could find a manager to do this service for us at a reasonable fee, we have found these firms have their own rather rigid allocations of securities and that the complexities of statutory accounting are at odds with their philosophies. Our Company does not have the surplus reserves to be held to a rigid set of instructions regarding investment activities. Decisions with respect to our investments are made on a very individual basis, especially with regard to how each transaction will or could affect our surplus account. While we have experienced some difficulties in the past, as have many other companies, we continually strive to improve our monitoring and the management of our portfolio.

By way of correction, in the second paragraph under the heading "Investment Transactions" on page 7 of the draft in the fourth line, the text refers to the "issuance" of preferred stock when I believe the word you mean to use is "holding." There also are two minor omissions. On page 8 under the heading "Capitalization" in the fourth line the word "par" should be inserted, I believe, after the word "outstanding" and before the word "value." Also on page 8, under the heading "Territory and Plan of Operation" on the second line after the word "states" a comma and then the word "Guam" should be inserted before referring to the Commonwealth of the Northern Marianas. Further on page 8 under the heading "Territory and Plan of Operation" the second paragraph would be more accurate if it read, "NCLIC is represented by a field force of approximately 200 independent agents and 42 brokers all of whom hold non-exclusive contracts."

We very much appreciate the opportunity to comment on the draft of the Examination Report of our Company. I will be happy to exchange conversation or correspondence with respect to this letter.

Sincerely yours,

A handwritten signature in black ink, appearing to read "C. Robert Ogden".

C. Robert Ogden, JD
President

CRO/lb